Financial Statements – Departmental

Financial Statements 2018/19

Departmental

Statement of comprehensive revenue and expense

for the year ended 30 June 2019
Parent and group

Actual 2018 $000		Note	Actual 2019 $000	Unaudited Budget 2019 $000	Unaudited Supp EST 2019 $000	Unaudited Forecast 2020 $000
	Revenue					
234,951	Revenue Crown	2	265,703	225,648	266,603	280,154
220,051	Other revenue	2	221,624	221,879	228,556	230,990
455,002	**Total revenue**		**487,327**	**447,527**	**495,159**	**511,144**
	Expenses					
207,732	Personnel costs	3	219,202	215,167	208,149	214,484
38,871	Depreciation, amortisation and impairment expense	9, 11	41,764	38,104	40,768	46,640
18,164	Capital charge	18	20,590	20,699	20,647	22,680
419	Finance costs	19	373	373	373	323
157,285	Other operating expenses	4	171,926	147,475	203,953	207,820
422,471	**Total expenses**		**453,855**	**421,818**	**473,890**	**491,947**
32,531	**Operating surplus/(deficit)**		**33,472**	**25,709**	**21,269**	**19,197**
	Other comprehensive revenue and expense					
	Item that will not be reclassified to net surplus					
505	Asset revaluation gains/(losses)	9, 21	1,683	-	-	-
33,036	**Total comprehensive revenue and expense**		**35,155**	**25,709**	**21,269**	**19,197**

Explanations of significant variances against budget are detailed in Note 26.
The accompanying notes form part of these financial statements.

Statement of financial position

as at 30 June 2019

Parent and group

Actual 2018 $000		Note	Actual 2019 $000	Unaudited Budget 2019 $000	Unaudited Supp EST 2019 $000	Unaudited Forecast 2020 $000
	Assets					
	Current assets					
49,808	Cash and cash equivalents	6	71,027	25,215	26,657	40,612
39,344	Debtor Crown		64,688	100,000	55,000	75,000
10,814	Debtors and other receivables	7	18,804	11,236	9,395	7,844
2,102	Inventories	8	1,555	2,072	1,585	1,595
4,130	Prepayments		5,390	6,603	5,603	5,603
39,939	Non-current assets held for sale	10	39,024	-	39,939	39,939
146,137	**Total current assets**		**200,488**	**145,126**	**138,179**	**170,593**
	Non-current assets					
1,464	Prepayments		98	-	-	-
212,127	Property, plant and equipment	9	226,506	234,068	221,896	228,881
115,992	Intangible assets	11	130,886	150,293	163,158	167,861
329,583	**Total non-current assets**		**357,490**	**384,361**	**385,054**	**396,742**
475,720	**Total assets**		**557,978**	**529,487**	**523,233**	**567,335**
	Liabilities and taxpayers' funds					
	Current liabilities					
31,696	Creditors and other payables	12	39,440	36,214	24,449	28,754
3,771	Provisions	13	6,392	3,456	799	7,932
12,501	Revenue received in advance	14	14,605	11,132	12,168	12,168
10,018	Employee entitlements	15	10,668	10,524	11,742	11,413
602	Finance leases	17	653	653	653	707
262	Other financial liabilities	20	478	-	-	-
2,591	Return of operating surplus	16	1,317	-	-	-
61,441	**Total current liabilities**		**73,553**	**61,979**	**49,811**	**60,974**
	Non-current liabilities					
280	Provisions	13	136	-	-	-
2,450	Employee entitlements	15	2,894	2,601	2,450	2,376
4,330	Finance leases	17	3,676	3,676	3,676	2,969
2,627	Other financial liabilities	20	5,463	-	7,609	-
9,687	**Total non-current liabilities**		**12,169**	**6,277**	**13,735**	**5,345**
71,128	**Total liabilities**		**85,722**	**68,256**	**63,546**	**66,319**
404,592	**Net assets**		**472,256**	**461,231**	**459,687**	**501,016**
	Equity					
295,930	Taxpayer's funds	21	329,836	413,316	411,516	452,845
60,412	Memorandum accounts	5	92,567	-	-	-
48,250	Revaluation reserves	21	49,853	47,915	48,171	48,171
404,592	**Total equity**		**472,256**	**461,231**	**459,687**	**501,016**

Explanations of significant variances against budget are detailed in Note 26.

The accompanying notes form part of these financial statements.

Statement of changes in equity

for the year ended 30 June 2019
Parent and group

Actual 2018 $000		Note	Actual 2019 $000	Unaudited Budget 2019 $000	Unaudited Supp EST 2019 $000	Unaudited Forecast 2020 $000
334,816	**Balance at 1 July**		**404,592**	**404,276**	**404,592**	**464,779**
32,531	Operating surplus for the year		33,472	25,709	21,269	19,197
505	Other comprehensive revenue and expense		1,683	-	-	-
33,036	**Total comprehensive revenue and expense**		**35,155**	**25,709**	**21,269**	**19,197**
	Owner transactions					
41,256	Capital injections	22	35,639	31,246	35,639	17,640
(1,925)	Capital withdrawal	22	(1,813)	-	(1,813)	(600)
(2,591)	Return of operating surplus	16	(1,317)	-	-	-
404,592	**Balance at 30 June**		**472,256**	**461,231**	**459,687**	**501,016**

Explanations of significant variances against budget are detailed in Note 26.
The accompanying notes form part of these financial statements.

Statement of cash flows

for the year ended 30 June 2019

Parent and group

Actual 2018 $000		Actual 2019 $000	Unaudited Budget 2019 $000	Unaudited Supp EST 2019 $000	Unaudited Forecast 2020 $000
	Cash flows from operating activities				
225,607	Receipts from revenue Crown	240,360	165,648	250,947	260,154
222,670	Receipts from third parties	215,579	209,127	218,394	220,955
2,718	Net goods and services tax	94	(1,304)	(2,250)	57
(367,151)	Payments to suppliers and employees	(376,539)	(346,350)	(403,420)	(408,774)
(18,164)	Payments for capital charge	(20,590)	(20,699)	(20,647)	(22,565)
65,680	**Net cash flows from operating activities**	**58,904**	**6,422**	**43,024**	**49,827**
	Cash flows from investing activities				
433	Receipts from sale of property, plant and equipment	259	37,720	600	600
(42,626)	Purchase of property, plant and equipment	(30,393)	(18,547)	(27,142)	(24,707)
(44,419)	Purchase of intangibles assets	(38,296)	(58,071)	(70,328)	(41,944)
(86,612)	**Net cash flows from investing activities**	**(68,430)**	**(38,898)**	**(96,870)**	**(66,051)**
	Cash flows from financing activities				
41,256	Capital injections	35,639	31,246	35,639	17,640
-	Capital withdrawal	(1,700)	-	(1,700)	(600)
(762)	Repayment of surplus to the Crown	(2,591)	-	(2,591)	-
(558)	Payments of finance lease	(603)	(653)	(653)	(707)
39,936	**Net cash flows from financing activities**	**30,745**	**30,593**	**30,695**	**16,333**
	Movement in cash				
30,804	Opening cash and cash equivalents	49,808	27,098	49,808	40,503
19,004	Net increase/(decrease) in cash	21,219	(1,883)	(23,151)	109
49,808	**Closing cash and cash equivalents**	**71,027**	**25,215**	**26,657**	**40,612**

Explanations of significant variances against budget are detailed in Note 26.

The accompanying notes form part of these financial statements.

Statement of cash flows (continued)

for the year ended 30 June 2019

Parent and group

Reconciliation of the net surplus cash flow from operating activities

Actual 2018 $000		Actual 2019 $000
33,036	**Total comprehensive revenue and expense**	**35,155**
	Add/(deduct) non-cash items	
38,871	Depreciation, amortisation and impairment expense	41,764
(335)	Asset revaluation gains	(1,603)
(170)	Transfer to taxpayers' funds on disposal	(80)
(242)	Acquisition of donated assets	(275)
38,124	**Total non-cash items**	**39,806**
	Add/(deduct) items classified as investing activities	
1,400	Losses/(gains) on sale of property, plant and equipment	30
1,400	**Total investing or financial activities**	**30**
	Add/(deduct) movements in Statement of financial position items	
(7,178)	(Increase)/decrease in debtors and other receivables	(33,212)
1,543	(Increase)/decrease in other current assets	653
458	Increase/ (decrease) in other current liabilities	8,285
2,310	Increase/(decrease) in non-current liabilities	444
(4,013)	Increase/ (decrease) in creditors and other payables	7,742
(6,880)	**Total net movement in working capital items**	**(16,088)**
65,680	**Net cash flows from operating activities**	**58,904**

The accompanying notes form part of these financial statements.

Statement of commitments

as at 30 June 2019

Parent and group

Actual 2018 $000		Actual 2019 $000
	Capital commitments	
2,813	Intangible assets	4,716
645	Non-residential buildings	47
245	Plant and equipment	5,183
210	Furniture and fittings	2
20	Leasehold improvements	519
3,933	**Total capital commitments**	**10,467**
	Non-cancellable operating commitment leases as lessee	
	The future aggregate minimum lease payments to be paid under non-cancellable operating leases	
12,923	No later than one year	14,515
11,055	Later than one and not later than two years	12,241
25,205	Later than two and not later than five years	30,890
64,533	Later than five years	62,329
113,716	**Total non-cancellable operating commitment leases as lessee**	**119,975**
117,649	**Total commitments**	**130,442**

Capital commitments

Capital commitments are the cumulative amount of capital expenditure were the department entered into a contract for the acquisition of property, plant and equipment and intangible assets that have not been paid for, or not recognised as a liability as at the financial year-end.

Cancellable capital commitments are reported at the lower of the remaining contractual commitment or the early exit costs that is explicit in the exit clause of the agreement.

Non-cancellable operating commitment leases as lessee

The Department leases property, plant and equipment in the normal course of its business of which the majority are for premises across New Zealand. These lease amounts are disclosed as future commitments based on current rental rates extrapolated to outer years. The non-cancellable leasing period for these leases varies.

The Department's non-cancellable operating leases have varying terms, escalation clauses, and renewal rights. There are no restrictions placed on the Department by any of its leasing arrangements.

The total of minimum future sub-lease payments expected to be received under non-cancellable sub-leases at balance date is $1.223 million (2017/18: $0.292 million).

The accompanying notes form part of these financial statements.

Statement of contingent assets and liabilities

as at 30 June 2019
Parent and group

Quantifiable contingent assets

As at 30 June 2019, the Department had no quantifiable contingent assets (2017/18: nil).

Unquantifiable contingent assets

As at 30 June 2019, the Department had no unquantifiable contingent assets (2017/18: one).

Quantifiable contingent liabilities

As at 30 June 2019, the Department had:

- One quantifiable contingent liability of $0.400 million for cost associated with concept design phase of the new Wellington Archives, should the development not proceed.
- Two quantifiable contingent liabilities of $0.196 million relating to personal grievance and employment issue (2017/18: $0.362 million).

Unquantifiable contingent liabilities

As at 30 June 2019, the Department two unquantifiable contingent liabilities relating to potential cost claims associated with the Local Government Commission and the Gambling Commission (2017/18: three).

Employment issue and personal grievances

On occasion, employment issues or personal grievances arise. The Department works within its policies to resolve all issues raised in good faith. Where this is not possible a mediated settlement may be agreed.

The accompanying notes form part of these financial statements.

Notes to the financial statements
Basis of reporting

1. Statement of accounting policies

Reporting entity

The Department of Internal Affairs (the Department) is a government department as defined by Section 2 of the Public Finance Act (PFA) 1989 and is domiciled in New Zealand.

The Department's primary objective is to serve and connect people, communities and government to build a safe, prosperous and respected nation.

The Department does not operate to make a financial return and is also regarded as a Public Benefit Entity (PBE) for the purposes of complying with New Zealand generally accepted accounting practice (NZ GAAP).

The Department also reports on the Non-Departmental (Crown) activities and Trusts which it administers.

The Group consists of the Department and its subsidiary, Te Puna Foundation (The Foundation).

The Foundation is a Charitable Trust, which is controlled by the Department to provide support to the National Library of New Zealand in accordance with the National Library of New Zealand (Te Puna Matauranga o Aotearoa) Act 2003. The consolidation is required for financial reporting purposes only. The Department and The Foundation are operating independently.

Reporting period

The reporting period for these financial statements is the year ended 30 June 2019 with comparative figures for the year ended 30 June 2018. The financial statements were authorised for issue by the Chief Executive of the Department of Internal Affairs on 30 September 2019.

Basis of preparation

These financial statements have been prepared on a going-concern basis, and the accounting policies have been applied consistently throughout the year.

Statement of compliance

The financial statements also comply with the requirements of the PFA 1989, which include the requirement to comply with NZ GAAP and Treasury Instructions. These financial statements have been prepared in accordance with and comply with Tier 1 PBE International Public Sector Accounting Standards (PBE IPSAS).

Presentation currency and rounding

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000).

Measurement base

The financial statements have been prepared on a historical cost basis, adjusted by the revaluation of land and buildings, antiques and art, actuarial valuations of long service and retirement leave liabilities, and the fair value of certain financial instruments.

Changes in accounting policies

There have been no changes in accounting policies during the financial year.

Comparatives

When presentation or classification of items in the financial statements is amended or accounting policies are changed voluntarily, comparative figures are restated to ensure consistency with the current period unless it is impracticable to do so.

Standards issued and not yet effective

Standards and amendments, issued but not yet effective that have not been early adopted, and which are relevant to the Department are:

Standards	Changes / scope
Impairment of revalued assets	
PBE IPSAS 21 Impairment of Non-Cash-Generating Assets	The new scope includes the revalued property, plant, and equipment into the impairment accounting standards. Previously, only property, plant, and equipment measured at cost were scoped into the impairment accounting standards. Under the amendment, a revalued asset can be impaired without having to revalue the entire class-of-asset to which the asset belongs. The timing of the Department adopting this amendment will be guided by the Treasury's decision as to when the Financial Statements of Government adopt the amendment.
Interests in other entities	
PBE IPSAS 34 - *Separate financial statements*, PBE IPSAS 35 - *Consolidated financial statements*, PBE IPSAS 36 - *Investments in associates and joint ventures*, PBE IPSAS 37 - *Joint arrangements*, PBE IPSAS 38 - *Disclosure of interests in other entities*	In January 2017, the XRB issued new standards for interests in other entities (PBE IPSAS 34 - 38). These new standards replace the existing standards for interests in other entities (PBE IPSAS 6 - 8). The new standards are effective for annual periods beginning on or after 1 January 2019, with early application permitted. The Department plans to apply the new standards in preparing the 30 June 2020 financial statements. The Department has yet to carry out detailed assessment on the impact of these new standards.

Significant accounting policies

Significant accounting policies are included in the notes to which they relate and the ones that do not relate to a specific note are outlined below.

Foreign currency transactions

Foreign currency transactions (including those for which forward exchange contracts are held) are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive revenue and expense.

Taxation

The Department is exempt from the payment of income tax. Accordingly, no provision has been made for income tax. The Department is subject to fringe benefit tax (FBT) and goods and services tax (GST). It administers pay as you earn tax (PAYE), employer superannuation contribution tax (ESCT) and withholding tax (WHT).

Goods and Services Tax (GST)

All items in the financial statements including commitments and contingencies are GST exclusive, except for receivables and payables that are GST inclusive. Where GST is not recoverable as an input tax, it is recognised as part of the related asset or expense.

The net amount of GST owing at balance date, being the difference between output GST and input GST, is included in either receivables or payables in the Statement of financial position.

The net GST paid or received, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of cash flows. It reflects the net GST paid or received during the year. The GST components have been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

Budget and forecast figures

Basis of the budget and forecast figures

The 2019 budget figures (Unaudited Budget 2019) are for the year ended 30 June 2019. They are consistent with the Department's best estimate financial forecast information submitted to the Treasury for the Budget Economic and Fiscal Update (BEFU) for the year ending 2018/19. In addition, the financial statements also present the updated budget information from the Supplementary Estimates (Unaudited Supps EST 2019).

The 2020 forecast figures (Unaudited Forecast 2020) are for the year ending 30 June 2020, which are consistent with the best estimate financial forecast information submitted to the Treasury for the BEFU for 2019/20 plus any updated forecasting information. The forecast financial statements have been prepared as required by the PFA 1989 to provide forecast financial information for accountability purposes.

The budget and forecast figures are unaudited and have been prepared using the accounting policies adopted in preparing these financial statements.

Significant assumptions used in preparing the forecast financial information

The 30 June 2020 forecast figures have been prepared in accordance with and comply with PBE Financial Reporting Standards (FRS) 42 Prospective financial statements. The forecast figures contained in these financial statements reflect the Department's purpose and activities and based on several assumptions on what may occur during 2019/20. The forecast figures have been compiled based on existing government policies and ministerial expectations at the time the Main Estimates were finalised.

The main assumptions are as follows:

- the Department's activities will remain substantially the same as for the previous year focusing on the Government's priorities,
- personnel costs were based on full-time equivalent staff, which considers staff turnover,
- remuneration rates are based on current wages and salary costs, adjusted for anticipated remuneration changes,
- operating costs are based on the best estimate at the time the financial statements are finalised,
- no impact on the revaluation of land and buildings has been assumed in the forecast,
- capital commitments will realise as planned, and
- estimated year end information for 2018/19 is used as the opening position for 2019/20 forecasts.

The actual financial results achieved for 30 June 2020 are likely to vary from the forecast information presented, and the variations may be material. Factors that could lead to material differences between the forecast financial statements and the 2019/20 actual financial statements include:

- capability resource availability,
- efficiency or productivity gains,
- changes to the baseline because of technical adjustments, and
- demand driven volume changes.

Any changes to budgets during 2019/20 will be incorporated into the Supplementary Estimates of appropriations for the Government of New Zealand for the year ending 30 June 2020.

Authorisation statement

The forecast financial statements were approved for issue by the Chief Financial Officer on 17 April 2019. The Chief Executive is responsible for the forecast financial statements, including the appropriateness of the assumptions underlying them and all other required disclosures. While the Department regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2020 will not be published.

The purpose of the forecast financial statements is to facilitate Parliament's consideration of appropriations for, and planned performance of, the Department. These forecast financial statements may not be appropriate for other purposes.

Critical accounting estimates, assumptions and critical judgements in applying accounting policies

In preparing of financial statements in conformity with PBE accounting standards, critical judgements, estimates and assumptions have been made concerning the future and may differ from the subsequent actual results. The estimates and associated assumptions are continually evaluated and are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the progress of applying the accounting policies, the Department has made several judgements and applies estimates of future events. Judgements and estimates which are material to the financial report are found in the following notes:

Page	Notes	Judgements, estimates and assumptions
93	Note 11 – Intangible assets	Assessing the useful lives of software
97	Note 15 – Employee entitlements	Measuring long service leave and retirement gratuities
99	Note 17 – Finance leases	Classification of leases
101	Note 21 – Equity	Estimating the fair value of land and building

Results for the year

2. Revenue

Accounting policy

Revenue is measured at the fair value of consideration received or receivable. The specific accounting policies for significant revenue items are explained below:

Revenue – non-exchange transactions

Revenue Crown

Crown revenue consists of amounts appropriated for departmental appropriations for the year, adjusted for any formal additions and reductions. The funding entitlement is established by Parliament when it passes the Appropriation Acts for the financial year. The amount of revenue recognised considers any amendments to appropriations approved in the Appropriation (Supplementary Estimates) Act for the year and certain other unconditional funding adjustments formally approved prior to balance date.

There are no conditions attached to the funding from the Crown. However, the Department can incur expenses only within the scope and limits of its appropriations.

The fair value of revenue Crown has been determined to be equivalent to the funding entitlement.

Donated or subsidised assets

Where a physical asset is acquired for nil or nominal consideration, the fair value of the asset received is recognised as revenue in the Statement of comprehensive revenue and expense.

Revenue – exchange transactions

Grants

Grants are recognised as revenue when they become receivable unless there is an obligation in substance to return the funds if conditions of the grant are not met. If there is such an obligation, the grants are initially recorded as grants received in advance and recognised as revenue when conditions of the grant are satisfied.

Third party revenue

The Department derives revenue from third parties through the provision of outputs (products or services). Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer unless an alternative method better represents the stage of completion of the transaction. Such revenue is recognised when earned and is reported in the financial period to which it relates.

The Department uses memorandum accounts to record the accumulated balance of surpluses and deficits incurred in the provision of third party fully cost recovered outputs. These memorandum accounts separately disclose the cost of such outputs, as otherwise this information would be aggregated as part of the Department's Statement of financial position.

Rental revenue from subleases

Rental revenue under an operating sublease is recognised as revenue on a straight-line basis over the lease term.

Breakdown of other revenue

Actual 2018 $000		Actual 2019 $000	Unaudited Budget 2019 $000	Unaudited Supp EST 2019 $000	Unaudited Forecast 2020 $000
	Other revenue from non-exchange transactions				
242	Other third-party revenue	275	-	-	-
242	**Total other revenue from non-exchange transactions**	**275**	**-**	**-**	**-**
	Other revenue from exchange transactions				
115,831	Passport fees	118,902	120,151	123,542	126,149
22,380	Non-casino gaming licences and fees	22,388	21,057	20,624	21,471
17,679	Citizenship fees	15,436	12,700	17,524	17,524
15,176	Birth, death, marriage and civil union fees	15,274	15,256	15,256	15,256
10,029	Recovery from New Zealand Lottery Grants Board	10,570	10,029	10,813	10,513
8,949	VIP transport	9,062	9,000	9,000	9,000
7,526	e-Government development and operations	7,661	11,326	6,713	7,743
5,549	Casino operators' levies	5,453	7,393	6,951	6,951
3,408	Electronic purchasing in collaboration	3,711	3,315	3,395	3,475
2,276	Kōtui library services	2,107	1,699	1,999	1,800
1,266	RealMe	1,855	937	2,005	2,068
1,363	Translation services	1,540	1,000	1,611	1,000
1,407	Language line interpreter services	1,483	1,551	1,551	1,551
1,717	Te Puna catalogue and inter-loan library services	1,293	1,622	1,562	1,002
874	Charities registrations	869	852	852	852
691	Lake Taupō boating facilities	846	695	915	915
836	New Zealand Gazette	751	844	844	844
400	National dog database levy	400	400	400	400
478	Rental revenue from sublease	321	-	-	-
-	National Library auditorium	78	-	330	460
33	Net foreign exchange gain	-	-	-	-
1,941	Other third-party revenue	1,349	2,052	2,669	2,016
219,809	**Total other revenue from exchange transactions**	**221,349**	**221,879**	**228,556**	**230,990**
220,051	**Total other revenue**	**221,624**	**221,879**	**228,556**	**230,990**

3. Personnel costs

Accounting policy

Salaries and wages and employee entitlements

Employee entitlements to salaries and wages, annual leave, long service leave, retiring leave, and other similar benefits are recognised in the Statement of comprehensive revenue and expense when they accrue to employees.

Defined contribution superannuation schemes

Obligations for contributions to the State Sector Retirement Savings Scheme, Kiwisaver, the Government Superannuation Fund and the National Provident Fund are accounted for as defined contribution schemes and are recognised as an expense in the Statement of comprehensive revenue and expense when incurred.

Restructuring costs

Restructuring costs are recognised in the Statement of comprehensive revenue and expense only when there is a demonstrable commitment to either terminate employment prior to normal employment date or to provide such benefits because of a position becoming redundant.

Breakdown of personnel costs

Actual 2018 $000		Actual 2019 $000
199,212	Salaries, wages and contractor expenses	206,290
5,796	Employer contribution to defined contribution plans	6,073
1,677	Restructuring costs	3,313
(774)	Increase/(decrease) in employee entitlements	1,139
1,821	Other personnel costs	2,387
207,732	**Total personnel costs**	**219,202**

4. Other operating expenses

Accounting policy

Operating leases

Operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease. Accommodation and motor vehicle leases are recognised as operating leases.

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense (refer to Note 20).

Other expenses

Other expenses are recognised as goods and services as received.

Breakdown of other operating expenses

Actual 2018 $000		Note	Actual 2019 $000	Unaudited Budget 2019 $000	Unaudited Supp EST 2019 $000	Unaudited Forecast 2020 $000
52,480	Computer costs		52,777	44,859	83,816	75,132
22,528	Rental and leasing costs		24,197	23,429	23,908	21,937
21,936	Inventory costs		21,879	21,113	23,170	23,521
10,791	Consultants and outsourcing contracts		15,600	12,176	13,225	15,337
13,169	Agency fees		12,930	12,600	13,128	12,700
7,408	Travel expenses		9,662	7,938	8,218	9,143
10,051	Office expenses		8,952	10,220	8,360	10,178
2,170	Professional fees		4,419	1,262	3,131	3,700
3,867	Library resources and subscriptions		3,850	3,371	6,637	5,008
2,646	Staff development		3,409	2,826	3,280	3,622
1,760	Repair and maintenance		1,533	2,030	2,211	6,832
1,430	Publicity and promotion		1,223	1,256	1,341	1,050
387	Fees for auditor (financial statement audit)		396	425	426	426
-	Increase/(decrease) in provision for onerous contracts	13	180	-	-	-
-	Realised foreign exchange losses		67	-	-	-
27	Fees to Auditor (assurance and related Services)		30	-	-	-
1,400	Loss on write-off of assets		30	-	-	-
18	Increase/(decrease) in provision for expected lifetime credit loss	7	15	-	-	-
5,217	Other departmental operating costs		10,777	3,970	13,102	19,234
157,285	**Total other operating expenses**		**171,926**	**147,475**	**203,953**	**207,820**

5. Memorandum accounts

Accounting policy

Memorandum accounts reflect the cumulative surplus/(deficit) on those departmental services provided that are intended to be fully cost recovered from third parties through fees, levies, or charges. They are intended to provide a long-run perspective to the pricing of outputs. The balance of each memorandum account is expected to trend toward zero over time, with interim deficits being met either from cash from the Department's Statement of financial position or by seeking approval for a capital injection from the Crown. Capital injections will be repaid to the Crown by way of cash payments throughout the memorandum account cycle.

Summary of memorandum accounts

Actual 2018 $000		Actual 2019 $000
(282)	New Zealand Gazette	(238)
(22)	Use of facilities and access to Lake Taupō by boat users	(158)
55,095	Passport products	78,492
16,766	Citizenship products	20,279
(86)	Marriage and civil union products	436
1,087	Issue of birth, death and marriage certifications and other products	1,683
(2,576)	Gaming	4,526
1,123	Kōtui library services	1,196
(49)	Electronic Purchasing in Collaboration (EPIC)	303
(11,415)	Common capability products	(14,898)
771	National dog control information database	946
60,412	**Balance at 30 June**	**92,567**

Breakdown of memorandum accounts and further information

New Zealand Gazette (Established 30 June 2002)

Purpose: The cost of publishing and distributing the New Zealand Gazette is recovered through third party fees.

Actions: The memorandum account deficit decreased slightly in the year due to cost reductions resulting from moving to a new fully online operating model. A fees review was undertaken during the 18/19 year and changes to the fees structure will be implemented 1 September 2019.

Actual 2018 $000		Actual 2019 $000
	New Zealand Gazette	
(197)	**Balance at 1 July**	**(282)**
837	Revenue movement for the year	751
(922)	Expense movement for the year	(707)
(85)	**Net memorandum account surplus/(deficit) for the year**	**44**
(282)	**Balance at 30 June**	**(238)**

Use of facilities and access to Lake Taupō by boat users (Established 30 June 2002)

Purpose: The Department manages berths, jetties and boat ramps located at Lake Taupō. Fees are charged to third parties for the use of boat ramps and marina berths. These fees are used to cover the cost of the administration and maintenance of these facilities.

Actions: A review of the fees for the Crown owned boating facilities at Lake Taupō has been completed and the new fees are expected to come into effect in October 2019.

Actual 2018 $000		Actual 2019 $000
	Use of facilities and access to Lake Taupō by boat users	
222	**Balance at 1 July**	**(22)**
691	Revenue movement for the year	846
(935)	Expense movement for the year	(982)
(244)	**Net memorandum account surplus/(deficit) for the year**	**(136)**
(22)	**Balance at 30 June**	**(158)**

Passport products (Established 30 June 2002)

Purpose: To support a strategy to stabilise fees based on full cost recovery over a ten-year planning horizon. This strategy supports the introduction of new technologies, including the replacement of the ageing passport system within that timeframe.

Actions: Strong demand for 10-year passports is forecast until 2021. After 2021, a significant decrease in demand is forecast resulting from the change in November 2015 of adult passport validity from five years to ten years. This forecast decrease will result in the memorandum account moving towards a deficit position. New fees were implemented from March 2019 to prevent the projected deficit from occurring.

Actual 2018 $000		Actual 2019 $000
	Passport products	
34,015	**Balance at 1 July**	**55,095**
115,806	Revenue movement for the year	118,901
(94,726)	Expense movement for the year	(95,504)
21,080	**Net memorandum account surplus/(deficit) for the year**	**23,398**
55,095	**Balance at 30 June**	**78,492**

Citizenship products (Established 30 June 2002)

Purpose: To support a strategy to stabilise fees based on full cost recovery over a four to five-year planning horizon.

Actions: The Department is undertaking work as part of the Te Ara Manaaki programme to modernise systems for Identity-related products. The surplus is expected to contribute to the costs of replacing ageing technology. Citizenship fees will be reviewed following completion of this programme of work.

Actual 2018 $000		Actual 2019 $000
	Citizenship products	
15,688	**Balance at 1 July**	**16,766**
17,679	Revenue movement for the year	15,437
(16,601)	Expense movement for the year	(11,924)
1,078	**Net memorandum account surplus/(deficit) for the year**	**3,513**
16,766	**Balance at 30 June**	**20,279**

Marriage and civil union products (Established 30 June 2002, amended to include civil unions 1 July 2012)

Purpose: To support a strategy to stabilise fees based on full cost recovery over a four to five-year planning horizon. This strategy supports the introduction of new technologies including the replacement of the ageing births, deaths and marriages (BDM) systems within that timeframe.

Actions: The Department is undertaking work as part of the Te Ara Manaaki programme to modernise systems for Identity-related products. The surplus will contribute to the cost of replacing ageing technology.

Actual 2018 $000		Actual 2019 $000
	Marriage and civil union products	
(843)	**Balance at 1 July**	**(86)**
4,032	Revenue movement for the year	4,153
(3,275)	Expense movement for the year	(3,631)
757	**Net memorandum account surplus/(deficit) for the year**	**522**
(86)	**Balance at 30 June**	**436**

Issue of birth, death and marriage certifications and other products (Established 30 June 2002)

Purpose: To support a strategy to stabilise fees based on full cost recovery over a four to five-year planning horizon. This strategy includes the introduction of new technologies that allow greater access by applicants through the Internet.

Actions: The Department is undertaking work as part of the Te Ara Manaaki programme to modernise systems for Identity-related products. The surplus will contribute towards the cost of replacing ageing technology.

Actual 2018 $000		Actual 2019 $000
	Issue of birth, death and marriage certifications and other products	
(1,103)	**Balance at 1 July**	**1,087**
11,144	Revenue movement for the year	11,121
(8,954)	Expense movement for the year	(10,525)
2,190	**Net memorandum account surplus/(deficit) for the year**	**596**
1,087	**Balance at 30 June**	**1,683**

Gaming (Established 30 June 2002; amended to include Casino Fees on activities, July 2014)

Purpose: Fees established to recover the cost of administration and regulation of casino and non-casino gaming are reflected in gaming machine fees, compliance fees, licence fees and similar charges for differing types of gambling activity, in addition to charges relating to the electronic monitoring of non-casino gaming machines.

Actions: The memorandum account returned into surplus in 2018/19 faster than anticipated due to the higher product demand and lower level of expenditure incurred during the financial year. A review of fees is scheduled to be undertaken in 2020/21.

Actual 2018 $000		Actual 2019 $000
	Gaming	
(7,267)	**Balance at 1 July**	**(2,576)**
26,156	Revenue movement for the year	27,010
(21,465)	Expense movement for the year	(19,908)
4,691	**Net memorandum account surplus/(deficit) for the year**	**7,102**
(2,576)	**Balance at 30 June**	**4,526**

Gambling Commission and Censorship revenue and expenditure are not included in the Gaming memorandum account, because they are policy monitoring, not administration and regulation.

Kōtui library services (Established 30 January 2011)

Purpose: Kōtui is a shared service of integrated library management and resource discovery systems for public libraries. The business model is a subscription service where public libraries pay a one-off software installation fee followed by annual subscription charges. The Kōtui shared library and resource discovery service was launched to public libraries in September 2011. This memorandum account was established to enable the provision of the Kōtui Library Management System, which is designed to be funded 100% by member contributions. The cost model for the Kōtui memorandum account was designed to operate in surplus over a ten-year period with the surplus slowly decreasing over time.

Actions: Subscription fees are reviewed annually to ensure recovery of full costs.

Actual 2018 $000		Actual 2019 $000
	Kōtui library services	
835	**Balance at 1 July**	**1,123**
2,275	Revenue movement for the year	2,107
(1,987)	Expense movement for the year	(2,034)
288	**Net memorandum account surplus/(deficit) for the year**	**73**
1,123	**Balance at 30 June**	**1,196**

Electronic Purchasing in Collaboration (EPIC) (Established 2012)

Purpose: The purpose of EPIC is to negotiate group licenses to electronic resources and to provide member libraries and all New Zealand schools with access to high quality subscription electronic resources at more favourable rates than they would be able to achieve individually.

Actions: Fees are reviewed annually and are based on member uptake and vendor costs.

Actual 2018 $000		Actual 2019 $000
	Electronic Purchasing in Collaboration (EPIC)	
109	**Balance at 1 July**	**(49)**
3,412	Revenue movement for the year	3,710
(3,570)	Expense movement for the year	(3,358)
(158)	**Net memorandum account surplus/(deficit) for the year**	**352**
(49)	**Balance at 30 June**	**303**

Common capability products (Established 2013; amended to include Infrastructure as a Service (IaaS) and All-of-Government adoption of cloud computing memorandum accounts with effect from 1 July 2015)

Purpose: This memorandum account was established to record both the amount of revenue received from agencies for Government ICT Common Capability (GCC) products, not otherwise accounted for via separate memorandum accounts, and the amount of expenses incurred in supporting the development (where not funded separately), delivery, operation and renewal of these GCC products.

Actions: Whilst the memorandum account revenue increased slightly in 2018/19, the deficit balance continued to grow as expenses in the year, particularly those relating to ITMS, TaaS and Marketplace capabilities, could not be recovered in full through the current Common Capabilities memorandum account processes. Work is progressing in 2019/20 with Treasury and the Department's financial governance group to progress a sustainable solution.

Actual 2018 $000		Actual 2019 $000
Common capability products		
(11,550)	**Balance at 1 July**	**(11,415)**
7,526	Revenue movement for the year	7,661
(7,391)	Expense movement for the year	(11,144)
135	**Net memorandum account surplus/(deficit) for the year**	**(3,483)**
(11,415)	**Balance at 30 June**	**(14,898)**

Common capability products memorandum account includes IaaS and All-of-Government adoption of cloud computing memorandum accounts effective from 1 July 2015.

National dog control information database (Established 2014)

Purpose: This memorandum account was established to track the revenue and expenditure associated with administering the national dog control information database.

Actions: A period of higher expenditure is expected in 2019/20 associated with reviewing and renewing the National Dog Control Information Database operation and support contract. This expenditure is expected to utilise the accumulated surplus.

Actual 2018 $000		Actual 2019 $000
National dog control information database		
563	**Balance at 1 July**	**771**
400	Revenue movement for the year	400
(192)	Expense movement for the year	(225)
208	**Net memorandum account surplus/(deficit) for the year**	**175**
771	**Balance at 30 June**	**946**

Operating assets and liabilities

6. Cash and cash equivalents

Accounting policy

Cash and cash equivalents include cash on hand, cash in transit, and funds on deposit with banks with an original maturity of no more than three months. The Department is only permitted to expend its cash and cash equivalents within the scope and limits of its appropriations.

Overseas bank accounts are shown in New Zealand dollars converted at the closing mid-point exchange rate.

Trust bank account is defined in the Regulatory Systems (Commercial Matters) Amendment Act 2017. This requires all retentions on commercial contracts to be held in a trust bank account. This account holds the money that is deposited with Department with pending practical completion of a transaction or dispute and which may become payable to the supplier.

Breakdown of cash and cash equivalents and further information

Actual 2018 $000		Actual 2019 $000
48,814	New Zealand bank accounts	69,996
	Overseas bank accounts	
407	Australian bank accounts	500
247	United Kingdom bank accounts	166
	Trust bank account	
340	Retention trust account	365
49,808	**Total cash and cash equivalents**	**71,027**

7. Debtors and other receivables

Accounting policy

Debtors and other receivables are recorded at face value, less an allowance for credit losses. The Department has applied the simplified expected credit loss model of recognising lifetime expected credit losses for receivable. In measuring expected credit losses, debtors and other receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

Debtors and other receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the debtor being in liquidation.

Provision for expected lifetime credit loss

The provision for expected life time credit loss consists of specific individual impairment provisions, based on review of overdue receivables, and a collective impairment provision based on an analysis of past collection history and debt write-offs.

There have been no changes during the reporting in the estimation techniques or significant assumptions used in measuring the provision.

Breakdown of receivables and further information

Actual 2018 $000		Actual 2019 $000
10,884	Gross trade receivables	18,889
(70)	Less provision for expected lifetime credit loss	(85)
10,814	**Total accounts receivables**	**18,804**
	Total receivables comprise:	
10,814	Receivables from exchange transactions	18,804
10,814	**Total receivable**	**18,804**

All receivables more than 30 days in age are past due. As at balance date, all receivables have been assessed for impairment, and appropriate provisions applied, as detailed below.

2018				2019		
Gross $000	Lifetime expected credit loss	Net $000		Gross $000	Lifetime expected credit loss $000	Net $000
7,128	-	7,128	Not past due	13,760	(8)	13,752
2,752	-	2,752	Past due 1-30 days	3,859	(2)	3,857
304	-	304	Past due 31-60 days	394	(4)	390
46	-	46	Past due 61-90 days	350	(12)	338
654	(70)	584	Past due > 91 days	526	(59)	467
10,884	**(70)**	**10,814**	**Total accounts receivables**	**18,889**	**(85)**	**18,804**

Movements in the provision for expected lifetime credit loss are as follows:

Actual 2018 $000		Actual 2019 $000
(64)	**Opening expected lifetime credit loss as at 1 July**	**(70)**
(70)	Additional provisions made during the year	(85)
64	Provisions released during the year	70
(70)	**Closing expected lifetime credit loss as at 30 June**	**(85)**

8. Inventories

Accounting policy

Inventories held for distribution or consumption in the provision of services that are not issued on a commercial basis is measured at the lower of cost (determined on the first-in first-out method) and current replacement costs. Where inventories are acquired at no cost, or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

Any write-down from cost to net realisable value or for the loss of service potential is recognised in the Statement of comprehensive revenue and expense in the year of the write-down.

Breakdown of inventories and further information

Actual 2018 $000		Actual 2019 $000
	Birth, death and marriage certificates	
124	Stock on hand	75
	Citizenship	
18	Stock on hand	20
516	Work in progress	647
	Film preservation laboratory	
100	Stock on hand	48
	National library	
39	Stock on hand	25
	Passports	
100	Stock on hand	96
1,205	Work in progress	644
2,102	**Total inventories**	**1,555**

No inventories have been written down during the year (2017/18: nil).

No inventories are pledged as security for liabilities (2017/18: nil). However, some inventories are subject to retention of title clauses.

9. Property, plant and equipment

Accounting policy

Property, plant and equipment consist of land, buildings, boating facilities, equipment, leasehold improvements, furniture and fittings, collections, computer hardware, motor vehicles, and leased assets.

Property, plant and equipment

Additions

Items of property, plant and equipment costing more than $3,000 are initially capitalised and recorded at cost if it is probable that future economic benefits or service potential will flow to the Department. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at its fair value on the date of acquisition. Work in Progress is recognised at cost less impairment and is not depreciated.

Under the Department's assets accounting policy, plant and equipment that individually costs less than $3,000 and is acquired as a group purchase with a total cost of more than $30,000 will be treated as a capital acquisition and capitalised as a fixed asset.

Subsequent costs

Subsequent costs are capitalised when it is probable that future economic benefits or service potential associated with the item will flow to the Department and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant, and equipment are recognised in the Statement of comprehensive revenue and expense as they are incurred.

Disposals

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are recognised in the Statement of comprehensive revenue and expense in the period the transaction occurs. Any associated gains and losses on revaluated asset are transferred from the revaluation reserve.

Impairments

The Department does not hold any cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return.

Property, plant, and equipment held at cost that has a finite useful life is reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impaired asset's carrying amount is written down to its recoverable amount which is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognised immediately in the Statement of comprehensive revenue and expense, unless the asset is carried at a revalued amount in which case any impairment loss is treated as a revaluation decrease.

Value in use is determined using an approach based on either a depreciated replacement cost approach, restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

The reversal of an impairment loss is recognised as part of the Statement of comprehensive revenue and expense.

Revaluations

Revaluations are carried out on several classes of property, plant and equipment to reflect the service potential or economic benefit obtained through control of the asset. Revaluation is based on the fair value of the asset with changes reported by class of asset.

Classes of property, plant and equipment that are revalued at least once every three to five years or whenever the carrying amount differs materially to fair value which is assessed every year by an independent registered valuer. Unrealised gains and losses arising from changes in the value of property, plant and equipment are recognised as at balance date and are debited or credited to other comprehensive revenue and expense in the Statement of comprehensive revenue and expense.

A gain is credited to the Statement of comprehensive revenue and expense to the extent that it reverses a loss previously charged to the Statement of comprehensive revenue and expense for the asset class. Otherwise, gains are credited to an asset revaluation reserve for that class of asset. Any loss is debited to the reserve to the extent that there is a balance in the asset revaluation reserve for that asset class. Otherwise, losses are reported in the Statement of comprehensive revenue and expense.

Accumulated depreciation at revaluation date is eliminated against the gross carrying amount so that the carrying amount after revaluation equals the revalued amount. The useful life of an asset is reassessed following revaluation.

Specific asset class policies

The asset class specific policies that have been applied are outlined below:

Land and buildings

Land and buildings are recorded at fair value less impairment losses and, for buildings, less depreciation accumulated since the assets were last revalued. Valuations are undertaken in accordance with the standards issued by the New Zealand property institute.

Collections

Collections include both general and school library collections. These current use collections are recorded at cost less accumulated depreciation and accumulated impairment losses.

Other property, plant and equipment

Other property, plant and equipment, which include motor vehicles and office equipment, are recorded at cost less accumulated depreciation and accumulated impairment losses.

Depreciation

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment or collections, less any estimated residual value, over its estimated useful life. Depreciation is not charged on land, antiques, artworks or capital work in progress.

The estimated useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Asset category	Asset life
Buildings and non-residential buildings	30 - 90 years
Furniture and fittings	5 - 30 years
IT equipment	3 - 5 years
Leasehold improvements	Shorter of lease period or estimated useful life of the improvements
Leased assets	7 years
Motor vehicles	3 - 6 years
National library general and schools' collections	5 - 50 years
Plant and equipment	5 - 100 years
Office equipment	5 - 10 years

Breakdown of property, plant, and equipment and further information

2019

Cost or valuation

Asset class	Balance at 1 July $000	Additions $000	Revaluation/ Impairments $000	Disposals $000	Transfers* $000	Balance at 30 June $000
Land	9,585	-	3,670	-	914	14,170
Non-residential buildings	147,342	12,831	(19,612)	-	(3,789)	136,771
Leasehold improvements	32,524	4,092	-	-	-	36,616
Boating facilities	120	-	-	(120)	-	-
Antiques and works of art	1,378	13	-	(8)	-	1,383
Furniture and fittings	25,889	558	-	(12)	2,567	29,002
General collections	31,714	485	-	-	119	32,318
Schools collections	19,857	1,061	-	-	45	20,963
Motor vehicles	7,120	356	-	(842)	253	6,887
Plant and equipment	10,223	9,259	-	(159)	(3,832)	15,491
IT equipment	30,746	975	-	(59)	5,361	37,023
Leased assets	6,700	-	-	-	-	6,700
Total cost	**323,198**	**29,630**	**(15,942)**	**(1,200)**	**1,638**	**337,324**

2019

Accumulated depreciation

Asset class	Balance at 1 July $000	Depreciation $000	Revaluation/ Impairments $000	Disposals $000	Transfers $000	Balance at 30 June $000
Land	-	-	-	-	-	-
Non-residential buildings	12,093	6,944	(17,625)	(156)	-	1,256
Leasehold improvements	11,097	1,606	-	-	-	12,703
Boating facilities	6	1	-	(7)	-	-
Antiques and works of art	-	-	-	-	-	-
Furniture and fittings	12,669	1,631	-	(12)	-	14,288
General collections	23,481	1,058	-	-	-	24,539
Schools collections	17,146	1,095	-	-	-	18,241
Motor vehicles	2,666	715	-	(597)	-	2,784
Plant and equipment	5,262	418	-	(159)	-	5,521
IT equipment	23,110	3,936	-	(58)	-	26,988
Leased assets	3,541	957	-	-	-	4,498
Total accumulated depreciation	**111,071**	**18,361**	**(17,625)**	**(989)**	**-**	**110,818**

*Transfers include transfers between assets categories, transfers between government entities, and transfers to non-current assets held for sale.

2018

Cost or valuation

Asset class	Balance at 1 July $000	Additions $000	Revaluation/ Impairments $000	Disposals $000	Transfers $000	Balance at 30 June $000
Land	13,075	-	329	-	(3,819)	9,585
Non-residential buildings	131,181	18,510	65	(3)	(2,411)	147,342
Leasehold improvements	25,042	10,167	-	(1,942)	(743)	32,524
Boating facilities	-	-	79	-	41	120
Antiques and works of art	1,378	-	-	-	-	1,378
Furniture and Fittings	24,078	3,326	-	(2,098)	583	25,889
General collections	31,000	610	-	-	104	31,714
Schools collections	19,302	998	-	(462)	19	19,857
Motor vehicles	6,853	1,455	-	(1,231)	43	7,120
Plant and equipment	10,150	1,374	-	(992)	(309)	10,223
IT equipment	30,828	6,039	-	(4,906)	(1,215)	30,746
Leased assets	6,700	-	-	-	-	6,700
Total cost	**299,587**	**42,479**	**473**	**(11,634)**	**(7,707)**	**323,198**

2018

Accumulated depreciation

Asset class	Balance at 1 July $000	Depreciation $000	Revaluation/ Impairments $000	Disposals $000	Transfers $000	Balance at 30 June $000
Land	-	-	-	-	-	-
Non-residential buildings	5,611	6,367	124	(3)	(6)	12,093
Leasehold improvements	11,856	1,183	-	(1,942)	-	11,097
Boating facilities	-	-	-	-	6	6
Antiques and works of art	-	-	-	-	-	-
Furniture and fittings	12,932	1,607	-	(1,870)	-	12,669
General collections	22,401	1,080	-	-	-	23,481
Schools collections	16,461	1,138	-	(453)	-	17,146
Motor vehicles	2,819	666	-	(819)	-	2,666
Plant and equipment	5,747	420	-	(905)	-	5,262
IT equipment	23,313	3,910	-	(4,113)	-	23,110
Leased assets	2,584	957	-	-	-	3,541
Total accumulated depreciation	**103,724**	**17,328**	**124**	**(10,105)**	**-**	**111,071**

Summary of property, plant and equipment

2018 Cost or valuation $000	2018 Accumulated depreciation $000	2018 Carrying value $000	Asset class	2019 Cost or valuation $000	2019 Accumulated depreciation $000	2019 Carrying value $000
9,585	-	9,585	Land	14,170	-	14,170
147,342	12,093	135,249	Non-residential buildings	136,771	1,256	135,515
32,524	11,097	21,427	Leasehold improvements	36,616	12,703	23,913
120	6	114	Boating facilities	-	-	-
1,378	-	1,378	Antiques and works of art	1,383	-	1,383
25,889	12,669	13,220	Furniture and fittings	29,002	14,288	14,714
31,714	23,481	8,233	General collections	32,318	24,539	7,779
19,857	17,146	2,711	Schools collections	20,963	18,241	2,722
7,120	2,666	4,454	Motor vehicles	6,887	2,784	4,103
10,223	5,262	4,961	Plant and equipment	15,491	5,521	9,970
30,746	23,110	7,636	IT equipment	37,023	26,988	10,035
6,700	3,541	3,159	Leased assets	6,700	4,498	2,202
323,198	**111,071**	**212,127**	**Total property, plant and equipment**	**337,324**	**110,818**	**226,506**

Finance leases

The net carrying amount of the leased assets (passport printers) held by way of a finance lease is $2.202 million (2017/18: $3.159 million).

Capital work in progress

2018 cost $000	Asset class	2019 cost $000
14,520	Non-residential buildings (including leasehold improvements)	13,887
409	Furniture and fittings	178
980	Plant and equipment	2,713
15,909	**Total capital work in progress**	**16,778**

Revaluation movement

Details of valuations and revaluation movements are contained in Note 21.

Impairment losses

The Department has no impairment losses (2017/18: $0.155 million).

Restrictions of title

There are no restrictions over the title of the Department's property, plant and equipment and none are pledged as security for liabilities.

10. Non-current assets held for sale

Accounting policy

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met, only when the sale is highly probable, and the asset is available for immediate sale in its present condition. The sale of the asset is expected to be completed within one year from the date of classification. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the Statement of comprehensive revenue and expense.

Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Non-current assets held for sale (including those as part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

Breakdown of non-current assets held for sale and further information

Actual 2018 $000		Actual 2019 $000
	Land	
37,120	Land beneath Archives and National Library - Wellington	37,120
2,819	Archives New Zealand - Christchurch	1,904
	Building	
-	Archives New Zealand - Christchurch	-
39,989	**Total non-current assets held for sale**	**39,024**

Land beneath Archives and National Library – Wellington

The land under National Library and Archives New Zealand was included as deferred sale and leaseback redress within the Taranaki Whānui ki te Upoko o te Ika Settlement in 2008.

Port Nicholson Block Settlement Trust (PNBST) notified the Department of its intention to purchase the land parcels in December 2016. At the end of 2018/19, the Department and PNBST were still engaged in discussions to finalise the Deed of Lease, which will form the basis of the ground rental arrangement of the land beneath the National Library and Archives New Zealand. As at 30 June 2019, PNBST still had intent to exercise their option to purchase the land.

The accumulated revaluation (loss) reserve associated with the land beneath the National Library is $3.600 million and the accumulated revaluation (gain) reserve associated with the land beneath the Archives New Zealand building is $11.219 million.

Land and building Archives New Zealand - Christchurch

The above property was used as the key South Island Repository for Archives New Zealand (Archives NZ). The 2011 earthquake have severely compromised both the building and the land as a suitable location for a significant part of the National Archive.

The property is surplus to requirements. The Department has engaged Land Information New Zealand (LINZ) to coordinate the disposal. The sale is expected to be completed in 2019/20.

The accumulated revaluation (gain) reserve associated with the land is $1.324 million and the accumulated revaluation (loss) reserve associated with the building is $0.600 million.

11. Intangible assets

Accounting policy

Additions

Intangible assets are initially recorded at cost. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. The cost of an internally generated intangible asset represents direct expenditure incurred in the development phase of the asset only. The development phase occurs after the following can be demonstrated: technical feasibility; ability to complete the asset; intention and ability to sell or use; and development expenditure can be reliably measured. Direct costs include the costs of services, software development employee costs, and an appropriate portion of relevant overheads. Expenditure incurred on research of an internally generated intangible asset is expensed when it is incurred. Where the research phase cannot be distinguished from the development phase, the expenditure is expensed when it is incurred.

Impairments

Intangible assets held at cost that have finite useful lives are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impaired asset's carrying amount is written down to its recoverable service amount which is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognised immediately in the Statement of comprehensive revenue and expense.

Value in use is determined using an approach based on either a depreciated replacement cost approach, restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

The reversal of an impairment loss is recognised as part of the Statement of comprehensive revenue and expense.

Amortisation

Amortisation is charged in the Statement of comprehensive revenue and expense on a straight-line basis over the useful life of the asset. Amortisation is not charged on capital work in progress. The estimated useful lives of intangible assets are as follows:

Asset category	Asset life
Computer software	3 – 8 years
Births, deaths and marriages historical records databases	10 years
Digitised collections	8 – 20 years
Digitised collections – National Digital Heritage Archive	Indefinite life

Critical accounting estimates and assumptions

Useful lives of software

The useful life of software is determined at the time the software is acquired and brought into use and is reviewed at each reporting date for appropriateness. For computer software licences, the useful life represents management's view of the expected period over which the Department will receive benefits from the software, but not exceeding the licence term. For internally generated software developed by the Department, the useful life is based on historical experience with similar systems as well as anticipation of future events that may impact the useful life, such as changes in technology.

Breakdown of intangible assets and further information

Movements in the carrying value for each class of intangible asset are as follows:

2019

Cost or valuation

Asset class	Balance at 1 July $000	Additions $000	Revaluation/ Impairments $000	Disposals $000	Transfers $000	Balance at 30 June $000
Software acquired	49,571	1,431	-	(4,104)	(423)	46,475
Software internally generated	218,629	48,540	(452)	(3,488)	(10,763)	252,466
Total software cost	**268,200**	**49,971**	**(452)**	**(7,592)**	**(11,186)**	**298,941**

2019

Accumulated amortisation

Asset class	Balance at 1 July $000	Amortisation $000	Revaluation/ Impairments $000	Disposals $000	Transfers $000	Balance at 30 June $000
Software acquired	29,128	3,391	-	(4,068)	-	28,451
Software internally generated	123,080	17,940	2,072	(3,488)	-	139,604
Total software amortisation	**152,208**	**21,331**	**2,072**	**(7,556)**	**-**	**168,055**
Net book value	**115,992**					**130,886**

2018

Cost or valuation

Asset class	Balance at 1 July $000	Additions $000	Revaluation/ Impairments $000	Disposals $000	Transfers $000	Balance at 30 June $000
Software acquired	40,151	2,141	-	(3,236)	10,515	49,571
Software internally generated	184,644	42,654	-	(1,118)	(7,551)	218,629
Total software cost	**224,795**	**44,795**	**-**	**(4,354)**	**2,964**	**268,200**

2018

Accumulated amortisation

Asset class	Balance at 1 July $000	Amortisation $000	Revaluation/ Impairments $000	Disposals $000	Transfers $000	Balance at 30 June $000
Software acquired	27,421	4,684	-	(2,977)	-	29,128
Software internally generated	107,432	16,249	454	(1,055)	-	123,080
Total software amortisation	**134,853**	**20,933**	**454**	**(4,032)**	**-**	**152,208**
Net book value	**89,942**					**115,992**

Capital work in progress

The total amount of intangibles during construction is $24.629 million (2017/18: $45.207 million).

Impairment losses

The Department has recognised an impairment loss of $2.072 million for internally generated software (2017/18: $0.454 million). The impairment loss has been recognised in the Statement of comprehensive revenue and expense.

Restrictions of title

There are no restrictions over the title of the Department's intangible assets and no intangible assets are pledged as security for liabilities.

12. Creditors and other payables

Accounting policy

Short-term payables are recorded at the amount payable.

Breakdown of creditors and other payables and further information

Actual 2018 $000		Actual 2019 $000
	Creditors and other payables under exchange transactions	
11,700	Creditors	12,937
12,764	Accrued expenses	19,023
4,068	Accrued salaries	4,222
	Creditors and other payables under non-exchange transactions	
3,164	GST payable	3,258
31,696	**Total creditors and other payables**	**39,440**

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms; therefore the carrying value approximates their fair value.

13. Provisions

Accounting policy

A provision is recognised for future expenditure of uncertain amount or timing when:

- there is a present obligation (either legal or constructive) because of a past event,
- it is probable that an outflow of future economic benefits will be required to settle the obligation, and
- a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditure required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Breakdown of provisions and further information

Actual 2018 $000		Actual 2019 $000
	Current provisions	
567	Restructuring	3,187
-	Onerous contracts	180
90	Lease make good	111
3,114	Others	2,914
3,771	**Total current provisions**	**6,392**
	Non-current provisions	
280	Lease make good	136
280	**Total non-current provisions**	**136**
4,051	**Total provisions**	**6,528**

	Restructuring $000	Lease make good $000	Onerous lease $000	Others $000	Total $000
2019					
Balance as at 1 July	**567**	**370**	**-**	**3,114**	**4,051**
Additional provisions made	3,005	-	180	804	3,989
Charge against provision for the year	(385)	(123)	-	(1,004)	(1,512)
Balance as at 30 June	**3,187**	**247**	**180**	**2,914**	**6,528**

Restructuring

The Department recognises provisions for restructuring when an approved, detailed, formal plan for the restructuring has been announced publicly to those affected, or implementation has already commenced. The restructuring provision arises from the changes to operating models for delivery of services across the Department. These changes are expected to be completed within the next year.

Lease make good provision

The lease make good provision relates to contractual obligation resulting from the Department entering into property leases contracts. These lease obligations require the Department at the expiry of the lease term, restoration of the properties to an agreed condition, repairing any damage and removing any fixtures and fittings installed by the Department. A provision has been recorded to recognise this liability.

Onerous contracts

The provision for onerous contracts arises from a non-cancellable lease where the unavoidable costs of meeting the lease contract exceed the economic benefits to be receivable from it. The leases are onerous because of vacant space. The Department has onerous contract of $0.180 million as at 30 June 2019 (2017/18: nil).

Others

Holidays Act 2003 sets out the minimum entitlements to holidays and leave, and payment that employer is obliged to provide to their employees. The Department is currently working with Ministry of Business, Innovation and Employment (MBIE) through the Labour Inspectorate to ensure that the Department meets the obligations under the Act.

State Services Commission (SSC) has instructed agencies to review and change the hourly rate calculation methodology in the payroll system from Personnel Information Payroll Services (PIPS) to Standard method. Crown Law are recommending a compensatory approach to affected employees.

The Department has estimated potential liabilities associated with the above changes and plan to implement the necessary system remediation in 2019/20.

14. Revenue received in advance

Accounting policy

Revenue is recognised in the Statement of financial position as a liability when the revenue has been received but does not meet the criteria for recognition as revenue in the Statement of comprehensive revenue and expense.

Breakdown of revenue received in advance

Actual 2017 $000		Actual 2018 $000
4,954	Gaming - licensing fees	5,351
3,845	Passport fees; birth, death, marriage and civil union fees; and citizenship fees	5,062
2,548	Electronic Purchasing in Collaboration (EPIC)	2,717
-	National Library - Pacific Virtual Museum Pilot Program	840
-	Software as a service (SaaS)	343
-	Kōtui library services	107
812	Te Puna	30
-	Aotearoa People's Network Kaharoa (APNK)	11
342	Other	144
12,501	**Total revenue received in advance**	**14,605**

15. Employee entitlements

Accounting policy

Short-term employee entitlements

Employee entitlements that are due to be settled within 12 months after the end of the year in which the employee provides the related service are measured based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, long service leave and retirement gratuities expected to be settled within 12 months.

A liability and an expense are recognised for bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation and a reliable estimate of the obligation can be made.

Long-term employee entitlements

Employee entitlements that are due to be settled beyond 12 months after the end of the year in which the employee provides the related service, such as retirement and long service leave, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements accruing to employees, based on years of service, years to entitlement, the likelihood that employees will reach the point of entitlement, and contractual entitlements information, and
- the present value of the estimated future cash flows.

Presentation of employee entitlements

Annual leave, vested long service leave, and non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.

Actual 2018 $000		Actual 2019 $000
	Current entitlements	
9,387	Annual leave	10,052
631	Long service and retirement leave	616
10,018	**Total current entitlements**	**10,668**
	Non-current entitlements	
2,450	Long service and retirement leave	2,894
2,450	**Total non-current entitlements**	**2,894**
12,468	**Total entitlements**	**13,562**

Critical accounting estimates and assumptions

Long service and retirement leave

An assessment was undertaken of the Long Service and Retirement Leave liability for each employee as at balance date. Actuarial services were provided by Mercer (N.Z.) Ltd and were prepared by the Fellow of the New Zealand Society of Actuaries.

The measurement of the retiring and long service leave obligations depends on several factors that are determined on an actuarial basis using several assumptions. Two key assumptions used in calculating this liability are the discount rate and salary inflation factor. Any changes in these assumptions will affect the carrying value of the liability.

Actual 2018 %		Actual 2019 %
	Discount rate	
2.47	Long service leave	1.43
1.87	Retirement leave	1.35
	Salary inflation factor	
3.10	Salary inflation	3.10

The following table provides a sensitivity analysis for the key assumptions:

	DISCOUNT RATE		**SALARY INFLATION FACTOR**	
	- 1.0%	**+ 1.0%**	**- 1.0%**	**+ 1.0%**
Long service leave	201,000	(178,600)	(177,400)	195,500
Retiring leave	300	(300)	(300)	300

16. Return of operating surplus

Actual 2018 $000		Actual 2019 $000
33,036	Total comprehensive revenue and expense	35,160
(505)	Revaluation loss/(gain)	(1,683)
(29,940)	(Surplus)/deficit on memorandum accounts	(32,160)
2,591	**Total return of operating surplus**	**1,317**

As general government policy, except for the balances retained in memorandum accounts, the Department is not permitted to retain any operating surplus. The Department is required to repay the operating surplus to the Crown by 31 October each year.

Capital structure and financing costs

17. Finance leases

Accounting policy

Finance leases transfer to the Department, as lessee, substantially all the risks and rewards incidental to the ownership of a leased asset. Initial recognition of a finance lease results in an asset and liability being recognised at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The capitalised values are amortised over the period in which the Department expects to receive benefits from their use.

The finance charge is charged to the Statement of comprehensive revenue and expense over the lease period on a diminishing-value basis.

Critical judgements in applying accounting policies

Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the Department. Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether to include renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset is recognised in the Statement of financial position as property, plant and equipment (refer to Note 9), whereas with an operating lease, no such asset is recognised.

The Department has exercised its judgement on the appropriate classification of equipment lease. Approval is provided under section 50 of the Public Finance Act 1989 for the Department to be able to enter a finance lease for the supply of specialist printing equipment to produce passport books.

Actual 2018 $000		Actual 2019 $000
	Total minimum lease payments payable	
975	Not later than one year	975
3,902	Later than one year and not later than five years	3,902
1,464	Later than five years	488
6,341	**Total minimum lease payments**	**5,365**
	Future charges	
(373)	Not later than one year	(323)
(947)	Later than one year and not later than five years	(702)
(89)	Later than five years	(11)
(1,409)	**Total future charges**	**(1,036)**
	Present value of minimum lease payments payable	
602	Not later than one year	653
2,955	Later than one year and not later than five years	3,200
1,375	Later than five years	476
4,932	**Total present value of minimum lease payments**	**4,329**
	Represented by:	
602	Current	653
4,330	Non-current	3,676
4,932	**Total finance leases**	**4,329**

The net carrying amount of the leased assets within property, plant and equipment is shown in Note 9.

There are no restrictions placed on the Department because of the finance lease arrangement.

Finance lease liabilities are effectively secured, as the rights to the leased assets revert to the lessor in the event of default in payment.

18. Capital charge expense

Accounting policy

The Department pays a capital charge to the Crown on taxpayer's funds at 31 December and 30 June each financial year. This is recognised as an expense in the period to which the charge relates.

Further information

The capital charge rate for the year ended 30 June 2019 was 6.0% per annum (2017/18: 6.0%).

19. Finance costs

Accounting policy

Borrowing costs are recognised as an expense in the financial year in which they are incurred.

Breakdown of finance costs

Actual 2018 $000		Actual 2019 $000
419	Interest on finance leases	373
419	**Total finance costs**	**373**

20. Other financial liabilities

Accounting policy

Leasing incentives are recognised as liabilities, with durations of less than 12 months are recognised at their nominal value, unless the effect of discounting is material. Anything greater than 12 months are subsequently measured at amortised cost.

Breakdown of other financial liabilities

Actual 2018 $000		Actual 2019 $000
	Current liabilities	
262	Leasing incentives	478
262	**Total current liabilities**	**478**
	Non-current liabilities	
2,627	Leasing incentives	5,463
2,627	**Total non-current liabilities**	**5,463**
2,889	**Total other financial liabilities**	**5,941**

21. Equity

Accounting policy

Equity

Equity is the Crown's investment in the Department and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified as taxpayers' funds, memorandum accounts and property revaluation reserves.

Revaluation reserve

These reserves relate to the revaluation of land and buildings and works of art and antiques to fair value.

Breakdown of equity and further information

Actual 2018 $000		Note	Actual 2019 $000
	Taxpayers' funds		
256,429	Opening balance 1 July		295,930
33,036	Total comprehensive revenue and expense		35,155
(505)	Transfer of asset revaluation losses/(gains) to revaluation reserves	9	(1,683)
170	Transfer revaluation reserve to taxpayers' funds on disposal		80
(29,940)	Transfer of memorandum account net (surplus)/deficit for the year	5	(32,155)
41,256	Capital injections	22	35,639
(1,925)	Capital withdrawals	22	(1,700)
-	Technical transfer	22	(113)
(2,591)	Return of operating surplus to the Crown	16	(1,317)
295,930	**Balance at 30 June**		**329,836**
	Memorandum accounts		
30,472	Opening balance 1 July		60,412
29,940	Net memorandum account surplus/(deficit) for the year	5	32,155
60,412	**Balance at 30 June**		**92,567**
	Revaluation reserves		
47,915	Opening balance 1 July		48,250
505	Revaluation gains/(losses)	9	1,683
(170)	Transfer to taxpayers' funds on disposal		(80)
48,250	**Balance at 30 June**		**49,853**
	Revaluation reserves consist of:		
14,219	Land revaluation reserve		17,889
32,830	Building revaluation reserve		30,842
79	Boating facilities revaluation reserve		-
1,122	Antiques and works of art revaluation reserve		1,122
48,250	**Total revaluation reserves**		**49,853**

Critical accounting estimates and assumptions

Land and buildings - Departmental accommodation

The land and building were valued by CBRE Ltd, a Licensed Real Estate Agent (REAA 2008) and registered independent valuer in June 2019, with the valuation effective as at 30 June 2019. The next valuation will be effective from 30 June 2022, which is in line with the Department's accounting policy.

Antiques and works of art

The most recent valuation of antiques and works of art were performed by Dunbar Sloane Ltd, an independent expert, in June 2016, with valuations effective as at 30 June 2016. In line with the Department's accounting policy, the next valuation will be effective 30 June 2021, until this time the valuation undertaken in 2016 is deemed to be fair and reasonable.

22. Capital injections and withdrawals

Actual 2018 $000		Actual 2019 $000
	Capital Injections	
14,000	Asset replacement programme funding	19,069
2,000	Digital Identity	4,500
90	Anti-money Laundering phase 2	3,168
6,000	RealMe	3,000
-	Preserving the nation's memory	2,127
-	Royal Commission into Historical Abuse in State Care	1,325
870	Progressive steps programme	1,000
1,700	Core Government trusted domain	850
-	Royal Commission into Christchurch Mosques Terror Attack	600
906	2017 Change of Executive	-
9,540	Archives NZ - Christchurch Relocation	-
6,150	Wellington accommodation project	-
41,256	**Total capital injections**	**35,639**
	Capital Withdrawals	
-	RealMe Repayable Capital Injection	(1,700)
-	Asset transfers to non-Department	(113)
(1,925)	Palmerston North building transfer	-
(1,925)	**Total capital withdrawals**	**(1,813)**

Capital management

The Department's capital is its equity, which comprises taxpayers' funds, memorandum accounts and revaluation reserves. Equity is represented by net assets. The objective of managing the Department's equity is to ensure the Department effectively achieves the goals and objectives for which it has been established, whilst remaining a going concern. Where the Department identifies that it does not have sufficient resources to achieve this objective a capital injection is sought.

Financial risk management

23. Financial instruments and risks management

Accounting policy

Derivative

For certain commitments the Department uses derivative financial instruments (foreign currency forward exchange contracts) to mitigate its risks associated with foreign currency fluctuations. The Department does not hold or issue derivative financial instruments for trading purposes. The Department has not adopted hedge accounting.

Derivatives are initially recognised at fair value on the date a derivative contract is entered and are subsequently remeasured at their fair value at each balance date with the resulting gain or loss recognised in the Statement of comprehensive revenue and expense.

Foreign exchange derivatives are classified as current if the contract is due for settlement within 12 months of balance date. Otherwise, the full fair value of foreign exchange derivatives is classified as non-current.

Financial instrument risks

The Department is party to financial instrument arrangements as part of its daily operations. These include cash and cash equivalents, accounts receivable, accounts payable, foreign currency forward contracts, and other financial liabilities.

The Department's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. The Department has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered.

Market risk

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Department maintains bank accounts denominated in foreign currencies. Balances are regularly cleared to minimise exposure risk.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

Under section 46 of the Public Finance Act 1989, the Department cannot raise a loan without approval of the Minister of Finance. Equipment leases are identified as finance leases in accordance with NZ IPSAS 13 Leases. The Department has received the approval of the Minister of Finance for this passport printer lease. The fixed interest rate on the term of these leases reduces the exposure on borrowed funds. This information is provided in Note 17.

Credit risk

Credit risk is the risk that a third party will default on its obligations to the Department, causing the Department to incur a loss.

In the normal course of its business, credit risk arises from receivables, deposits with banks, and derivative financial instrument assets. The Department banks with Treasury approved financial institutions. The Department is permitted to deposit funds only with Westpac (Standard and Poor's credit rating of AA-), a registered bank, and enter into foreign exchange forward contracts with the New Zealand Debt Management Office (Standard and Poor's credit rating of AA). These entities have high credit ratings. For its other financial instruments, the Department does not have significant concentrations of credit risk.

Credit evaluations are undertaken on customers requiring credit. Collateral or other security is not generally required to support financial instruments with credit risk. Other than cash and bank balances and trade receivables, the Department does not have any significant credit risk. This information is provided in Note 6 and 7.

Liquidity risk

Liquidity risk is the risk that the Department will encounter difficulty raising liquid funds to meet commitments as they fall due.

As part of meeting its liquidity requirements, the Department closely monitors its forecast cash requirements with expected cash drawdowns from the New Zealand Debt Management Office. The Department maintains a target level of available cash to meet liquidity requirements.

The table below analyses the Department's financial liabilities that will be settled based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Note	Total $000	Less than 6 months $000	Between 6 months and 1 year $000	Between 1 year and 5 years $000	Over 5 years $000
2019						
Creditors and other payables	12	39,440	39,440	-	-	-
Finance lease	17	5,365	488	487	3,902	488
Other financial liabilities	20	5,941	239	239	2,239	3,224
2018						
Creditors and other payables		31,696	31,696	-	-	-
Finance lease		6,341	488	487	3,902	1,464
Other financial liabilities		2,889	238	24	1,848	779

The Department had no forward exchange contracts outstanding at 30 June 2019 (2017/18: nil).

The fair values of forward foreign exchange contracts have been determined using a discounted cash flow valuation technique based on quoted market prices.

Categories of financial instruments

The carrying amounts of financial assets and financial liabilities in each of the financial instrument categories are as follows:

Actual 2018 $000		Note	Actual 2019 $000
	Loans and receivables		
49,808	Cash and cash equivalents	6	71,027
39,344	Debtor Crown		64,688
10,814	Debtors and other receivables	7	18,804
99,966	**Total loans and receivables**		**154,519**
	Financial liabilities measured at amortised cost		
31,696	Creditors and other payables (excluding revenue received in advance)	12	39,440
4,932	Finance lease	17	4,329
2,889	Other financial liabilities	20	5,941
39,517	**Total financial liabilities measured at amortised cost**		**49,710**

Fair value hierarchy disclosures

For those financial instruments recognised at fair value in the Statement of financial position, fair values are determined using the following hierarchy:

- Level 1 – Quoted market price – financial instruments with quoted prices for identical instruments in active markets.
- Level 2 – Valuation technique using observable inputs – financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – Valuation techniques with significant non-observable inputs – financial instruments valued using models where one or more significant inputs are not observable.

There are no Fair Value hierarchy disclosures for 2018/19 (2017/18: nil).

There were no transfers between the different levels of the fair value hierarchy.

Other disclosures

24. Controlled entity

The Department is required to prepare consolidated financial statements in relation to the group for each financial year. Consolidated financial statements for the group have not been prepared using the acquisition method due to the small size of its controlled entity, the Foundation, which means that the parent and group amounts are not materially different.

The Foundation has a balance date of 31 March and there has been no significant event to adjust between then and 30 June 2019.

The Foundation had total revenue of $1.704 million (2017/18: $0.432 million) and a net surplus of $1.615 million (2017/18: $0.398 million). The Foundation had assets of $2.338 million (2017/18 $0.553 million) and liabilities of $0.161 million (2017/18: $0.006 million)

The Foundation has no capital commitments or non-cancellable operating commitment leases as lessee. There is one commitment to provide $0.150 million contribution to the Library and Information Association of New Zealand Aotearoa (LIANZA) to support the volunteer programme enabling New Zealand librarians to be part of the International Federation of Library Associations and Institutions (IFLA) conference in 2020. The contribution would be subject to the conference being held in New Zealand.

There are no contingent assets or liabilities as at balance date.

Accounting policies applies to the controlled entity

Donations in kind

Donation in kind exists where an asset or service is provided by a third party in exchange for branding association or other non-cash benefits provided the Foundation. This occurs through open market negotiations, and the fair market value of the asset or service provided is recognised as revenue to the Foundation, with an equal value recognised as the expense incurred in providing these associated benefits.

Investments

Short term investments are investment maturing within 12 months of the Foundation's reporting date (31 March); long term investments are investment maturing more than 12 months after the report date (31 March).

25. Related party transactions and key management personnel

All related party transactions have been entered on an arms' length basis. The Department is a government department and is wholly owned and controlled by the Crown. The Government significantly influences the roles of the Department as well as being its major source of revenue.

Related party transactions required to be disclosed

There are no related party transactions that are required to be disclosed.

Related party disclosures have not been made for transactions that are within a normal supplier, client or recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect that the Department would have adopted in dealing with the party at arm's length in the same circumstances. Further, transactions with other government agencies (for example, Government Departments and Crown Entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions.

Transactions with key management personnel and their close family members

Key management personnel compensation

Actual 2018 $000		Actual 2019 $000
	Leadership team, including the Chief Executive	
3,460	Remuneration	3,387
10	Number of full-time equivalent staff	9

The key management personnel remuneration disclosure includes the Chief Executive and eight members of the Executive Leadership Team (ELT) and those formally acting in these positions during the financial year. The Chief Executive's remuneration is determined and paid by the State Services Commission.

Key management personnel compensation excludes the remuneration and other benefits of the Responsible Ministers of the Department. The Ministers' remuneration and other benefits are set out by the remuneration authority under the Members of Parliament (Remuneration and Services) Act 2013 and are paid under Permanent Legislative Authority.

Related party transactions involving key management personnel or their close family members

Treasury has confirmed that there were no related party transactions with the Responsible Ministers of the Department. Where there are close family members of key management personnel employed by the Department, the terms and conditions of the employment arrangements are no more favourable than the Department would have adopted if there were no relationship with key management personnel.

26. Explanation of significant variances against budget

Statement of comprehensive revenue and expense

Variances between the main estimates and the supplementary estimates

The changes in the budgets between the Main Estimates and Supplementary Estimates, together with explanations for the significant variances between actual expenditure and the Supplementary Estimates, are detailed by output expense in the revenue and output expense section.

The factors contributing to the overall increase in the expense budgets between the Main Estimates and Supplementary Estimates of $52.072 million are summarised below:

Reason for budget change	$000
Forecasting changes associated with the provision of products and services to third parties	11,117
New funding in 2018/19 for the continued operation of the Digital Government Partnership Fund	10,000
New funding in 2018/19 to meet the operating expenses associated with the Royal Commission into Historical Abuse in State Care and in the Care of Faith-Based Institutions	8,668
Expense transfers from 2017/18 to 2018/19	5,198
New funding in 2018/19 to enable the Government Chief Digital Officer to deliver the government's priorities in digital rights, digital inclusion and procurement and to discharge a limited functional lead mandate	2,900
New funding in 2018/19 for the Government Inquiry into Operation Burnham and Related Matters: Extension to the Final Report Date and additional funding	2,743
New funding for 2018/19 to meet the first-year costs associated with the Central/Local Government work programme	2,700
New funding in 2018/19 for costs associated with continuing work on developing options for a new approach to Digital Identity	2,575
New funding in 2018/19 for the Establishment of the Royal Commission into the Christchurch Mosques Terror Attack	1,740
New funding in 2018/19 for National Remembrance Service for the Christchurch Mosques Terror Attack	1,500
New funding in 2018/19 to meet the costs associated with the Ministerial Advisory Committee and additional policy capacity to consider and analyse the Review of the Racing Industry Report's recommendations, develop policy options and develop legislative and organisational change proposals	1,476
New funding in 2018/19 to enable the Infrastructure Funding and Financing work programme to proceed	1,200
New funding in 2018/19 to meet the costs associated with the visit by the Duke and Duchess of Sussex in October 2018	1,025
New funding for 2018/19 for the Inquiry staff, professional fees and other operating costs associated with the Government Inquiry into the Auckland Fuel Supply Disruption	944
New funding in 2018/19 for the Office of Ethnic Communities in Response to the Christchurch Mosques Attack	797
New funding in 2018/19 for hosting international dignitaries who attended the National Remembrance Service in Christchurch or other services and for the visit by the Duke of Cambridge	640
Expense transfer from 2018/19 to 2019/20	(1,000)
Operating to capital swap in 2018/19 associated with Anti-Money Laundering and Countering Financing of Terrorism	(1,168)
Other adjustments	(983)
Total budget change	**52,072**

Variances between 2018/19 actuals and the Supplementary Estimates

The following major budget variance occurred between the 2018/19 actuals and the 2018/19 Supplementary Estimates.

	Actual 2019 $000	Unaudited Supp EST 2018 $000	Variance $000	Variance %
Statement of comprehensive revenue and expenses				
Other operating expenses	171,926	203,953	(32,027)	(16%)

Explanations for significant variances between the 2018/19 actuals and the Supplementary Estimates are detailed below:

Other operating expenses

Other operating expenses were lower than budget by $32.027 million mainly due the following:

- timing of expenditure in Regulatory Services and inquires related work for which an in-principle expense transfer was approved for Inquires,
- lower than projected sales of services and products; and
- lower IT services cost for Te Ara Mannaki and RealMe programme.

Statement of financial position

Variances between the Main Estimates and the Supplementary Estimates

The primary factors contributing to the increase in general funds between the Main Estimates and the Supplementary Estimates of $1.546 million are detailed below:

Reason for budget change	$000
Capital Contributions approved in 2018/19 for Royal Commission into Historical Abuse in State Care and in the Care of Faith-Based Institutions and Establishment of the Royal Commission into the Christchurch Mosques Terror Attack	1,925
Capital transfers from 2017/18 to 2018/19 to ensure that capital funds are available for Anti-Money Laundering and Countering Financing of Terrorism and Progressive Steps Project	1,300
Operating to Capital Swap in 2018/19 associated with Anti-Money Laundering and Countering Financing of Terrorism	1,168
Adjustment to opening Taxpayers Funds resulting from final audited position for 2017/18 including surplus to be repaid to the Crown	314
Transfer of workshop at Lake Taupo from Department to Non-Department asset	(113)
Capital Withdrawal in 2018/19 for return of repayable capital injection associated with RealMe	(1,700)
Movement in forecast net surplus for 2018/19	(4,400)
Total budget change	**(1,546)**

Variances between 2018/19 actuals and the Supplementary Estimates

The following major budget variances occurred between the 2018/19 actuals and the 2018/19 Supplementary Estimates.

	Actual 2019 $000	Unaudited Supp EST 2018 $000	Variance $000	Variance %
Statement of financial position				
Current assets	200,488	138,179	62,309	45%
Non-current assets	357,490	385,054	(27,564)	(7%)
Current liabilities	73,553	49,811	23,742	48%
Non-current liabilities	12,169	13,735	(1,566)	(11%)

Explanations for significant variances between the 2018/19 actuals and the Supplementary Estimates are detailed below:

Current assets and non-current assets

Current assets were higher than budget by $62.309 million and non-current assets were lower than budget by $27.564 million mainly due to the following:

- timing of capital projects delivery has resulted higher cash on hand balance, lower capital spending for the year and higher debtor crown balance, and
- timing of trade receivables from inter-Government and third-party transactions.

Current liabilities and non-current liabilities

Current liabilities were higher than budget by $23.742 million and non-current liabilities were lower than budget by $1.566 million mainly due to the following:

- timing of purchase order receipts and timely payment of creditors and payables,
- additional provision recognised relating to restructuring cost and lease incentivises, and
- partially offset by surplus repayment provision.

27. Significant events after balance date

No events have occurred between the balance date and date of signing these financial statements that materially affect the actual results within these financial statements.